

Washington State
Legislature

JOINT
TRANSPORTATION
COMMITTEE

Implementing Alternative Transportation Funding Methods



Evaluation Criteria & Funding Method Implementation



December 2, 2009

Cedar River Group
Berk & Associates
Fehr & Peers
Nelson\Nygaard

Purpose

- Joint Transportation Committee (JTC) directed to conduct a comprehensive analysis of mid-term and long-term transportation funding mechanisms and methods (Transportation Budget)
- Principal Objective – Identify specific steps to begin implementing viable mid-term and long-term transportation funding approaches
- Focus on state imposed and collected transportation taxes and fees
- Include review of local jurisdiction transportation taxes and fees

Schedule

July 30 JTC Meeting: Policy Initiatives and Data Collection

Sept. 9 JTC Meeting: Evaluation Criteria/Initial Screening

Sept. 30 JTC Meeting: Implementation Alternatives

- Taxpayer and revenue impacts
- Implementation alternatives for preferred funding methods
 - Fuel & Use

Nov. 18 JTC Meeting: Implementation Alternatives

- Implementation alternatives for preferred funding methods
 - Vehicle, Driver, & Other
- Funding scenarios

Dec. 2 JTC Meeting: Draft Report

Dec. 31: Draft Final Report

2007 LONG-TERM FINANCING STUDY

- **Alternative Funding Methods Recommended**

Medium Term (5-15 years)	Long-Term (10-15 years)
• Sales tax on fuel	• Replace fuel tax with VMT fees
• Index fuel tax	• Local option VMT fees
• More tolling	• Vehicle weight-mile tax
• High occupancy tolling (HOT)	• Regional development impact fees
• Extend bridge tolling	Transition between medium- & long-term dependent on how quickly fuel tax erodes and development of technology to collect VMT fees
• Area tolling	
• Expand local sources	
• Local option tax (RTID)	
• Container charges	

Trends Affecting Transportation Funding Methods

Energy

- Policies – particularly new CAFÉ standards – accelerate erosion of fuel tax
- State fuel consumption per capita down since 2007
- Forecast \$1.7 billion less in 2010-30 time period than forecast in 2007

Climate Change

- Benchmarks to reduce per capita VMT being reviewed
 - Is VMT a good proxy for transportation contribution GHG emissions?
- WSDOT revising VMT forecast methodology
 - Anticipate revised forecast in June 2010
- Attainment of benchmarks not assumed in funding method analysis

Congestion

Issue in urban areas that state is addressing in part through pricing strategies

Federal

Federal Highway Trust Fund

- Congress has transferred General Funds to balance

Commissions

- Three federal commissions recommend use based fees – particularly VMT

Administration

- Funding recommendation in 18 months
- Expressed opposition to a VMT fee

State Funding Method Decisions

- Assume current federal funding

EXISTING STATE FUNDING SOURCES

Transportation 16-Year Financial Plan 2009-25

Fund Source	% 2009-25	% excluding bond sales, federal funds, interest
Motor Fuel Tax – 37.5 cpgx	38%x	52%x
Licenses, Permits, Fees, Abstractsx	21%x	28%x
Bond Salesx	14%x	
Federal Fundsx	12%x	
Ferry Revenuesx	7%x	10%x
Tolling (TNB & SR 167)x	3%x	4%x
Vehicle Sales Tax	3%x	4%x
Miscellaneous/Interestx	2%x	2%x
Total Fundsx	\$46.7 billionx	\$34.1 billionx

Characteristics of State Revenue Sources

Dependent on flat rate revenues

- 80% of direct revenue from fuel tax and licenses, permits, fees
- None grow with inflation

Legislative action required to set rates

- Rates set by RCW
- Except tolls and fares set by Washington State Transportation Commission

18th Amendment restrictions

- Fuel tax and vehicle registration fees limited to highway purposes

Legislative restrictions

- Legislature has further restricted taxes and fees
- Fees must be levied for a particular purpose and used for that purpose

Vehicle Owner Costs

Owners will pay less in 2025 than in 2009

- Result of improving fleet fuel efficiency

Owners will pay even less in purchasing power

- Rates are flat

Revenue if owners paid same purchasing power in 2025

- \$10 billion

State Fees and Taxes by Vehicle Type

Summary of Annual Baseline Transportation Taxes/Fees for All Vehicle Types (mid-level usage)

	2009w	2014w	2019w	2025w	% Changew 2009-2025w	% Changew 2009w Purchasingw Powerw
Compact Carw	\$197	\$189	\$179	\$175	-11%	-45%
Mid-Size Sedanw	\$272	\$260	\$246	\$241	-12%	-45%
Light Trucksw (SUVs / Pick-ups)w	\$437	\$414	\$390	\$379	-13%	-46%
Hybridw	\$151	\$146	\$140	\$137	- 9%	-43%
Electric Carw	\$77	\$76	\$76	\$76	-0.4%	-37%
Motorcyclew	\$138	\$133	\$127	\$124	-10%	-44%
Freight (Medium)w	\$1,694	\$1,605	\$1,503	\$1,456	-14%	-46%
Freight (Heavy)w	\$2,865	\$2,737	\$2,589	\$2,523	-12%	-45%

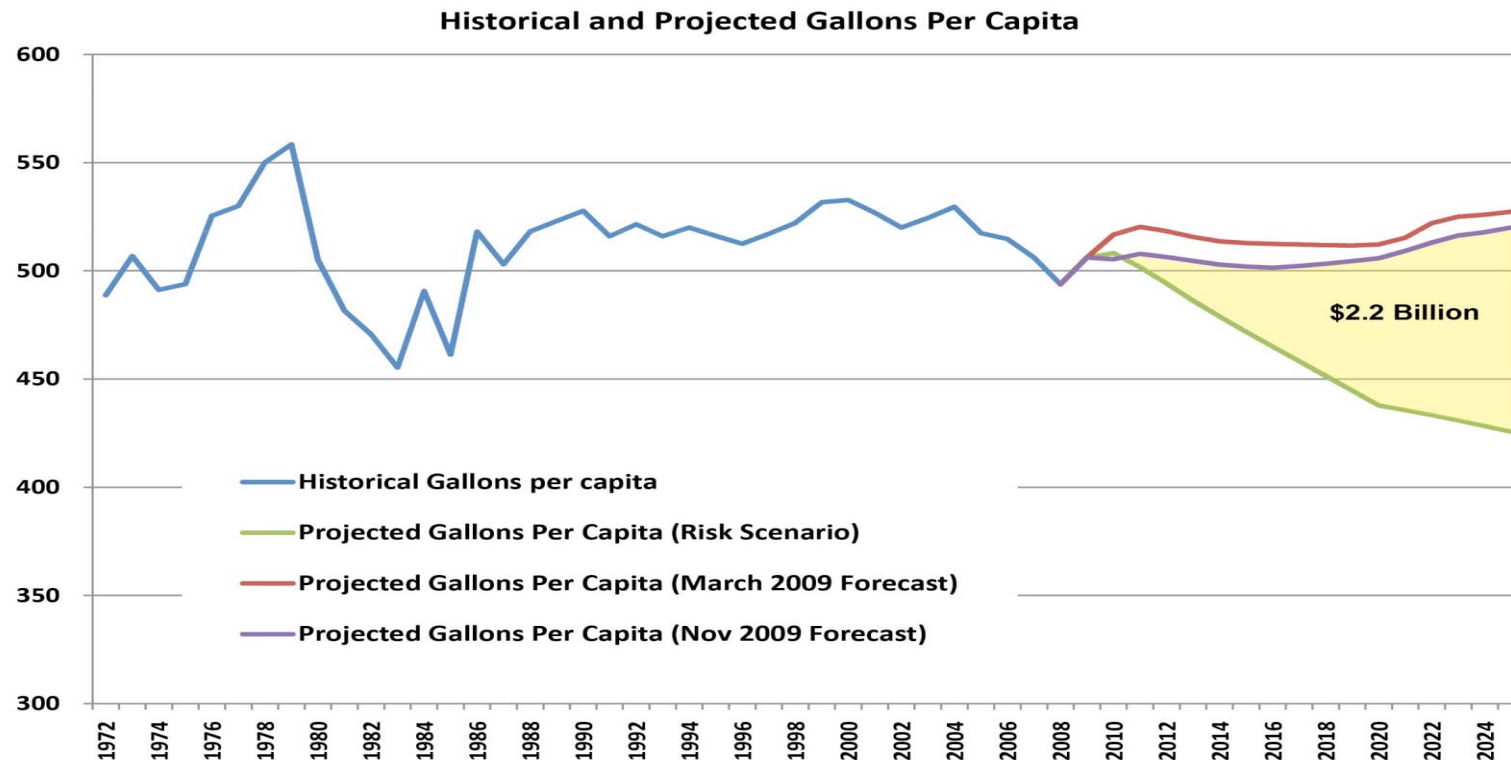
State Taxes and Fees by Vehicle Type

Passenger Vehicle State Taxes & Fees

- Policy Question: Should the percentage range between vehicle types in transportation funding remain?

Passenger Vehicle Type	2009 State Taxes & Fees	% compared to highest	2025 State Taxes & Fees	% compared to highest
Light Trucks/ (SUVs/Pick-Ups)/	\$437/		\$379/	
Mid-Size Sedan/	\$272/	-38%/	\$241/	-37%/
Compact Car/	\$197/	-55%/	\$175	-54%/
Hybrid/	\$151/	-65%/	\$137/	-64%/
Motorcycle/	\$138/	-68%/	\$124/	-67%/
Electric Car/	\$77/	-82%/	\$77/	-80%/

Consultants' Risk Scenario



More rapid fuel economy improvements
More fleet turnover into electric/hybrid vehicles
Flat VMT per vehicle
No additional sensitivity on fuel prices

Evaluation Framework

Goal: Package of funding tools that the legislature could consider to meet transportation funding objectives

- Revenue Stream:** Provide a stream of revenue commensurate with transportation system funding needs.
- Public Benefits/Reflects Use:** Provide a clear purpose and policy rationale linked to transportation system use, economic development, and other state policies and goals.
- Equitable:** Funding burden is geographically equitable and equitably allocates the costs to those who benefit.
- Local:** Allows for viable local transportation funding options that recognize the distinct needs of different local systems.

Evaluation Criteria

- Two thresholds – Is the funding method an appropriate state level fee or tax and does it have a nexus with transportation?
- Eighteen criteria to meet the four objectives

State Funding Methods Reviewed

Fuel	Fuel	Vehicle
Motor fuel tax options	Barrel Fee	Retail Sales & Use Tax
• Indexw	Exported Fuels Tax	• Change ratew
• Set increasesw	Electric Vehicle Fuel	• Eliminate trade-in creditw
• Vary by county*w	Driver	• Extend to parts & labor *w
• Add gross receipts taxw	Driver Licenses	* Infeasible due to SUTTAw
• Add petroleum company taxw	• Rates 2012 purchasingw	Vehicle Fees
• Elim. sales tax exemption **w	• Indexw	• Rates 2012 purchasingw
• Add special assessment feew	• Increase license yearsw	• Indexw
*Infeasible - uniform ratesw	Vehicle	• Modify weight feesw
**Must include local sales taxesw	Motor Vehicle Excise Tax	• Extend in-lieu of feew
	Tax on Auto Premiums	Tire Fee Modifications

Funding Methods Reviewed

Useti	Useti	Transportation Systemti
Tolling/Congestion Pricingti	Cascade Amtrakti	Access Managementti
• Expand tollingti	• Operations fundingti	• Rates 2012 purchasingti
• Expand revenue usesti	• Capital fundingti	• Indexti
• Zone-based/cordon tollsti	Off Road Useti	• Modifyti
Vehicle Miles Traveled (VMT)ti	• Rates 2012 purchasingti	Reflect impactti
	• Indexti	Extend to interstatesti
• State-wideti	• \$ to Off-Road Accountti	Transportation Businessti
• Truck mileage weight feeti		Business Licensesti
Ferriesti		• Rates 2012 purchasingti
• Operations fundingti		• Indexti
• Capital fundingti		

Implementation Issues/Recommendations

Affect many funding method options

Recommendation 1: Provide funding for DOL to begin upgrading its computer systems, consider building costs into fee structure.

- System antiquated
- Estimates \$38 million
- Schedule – Four years
- Assumes no major changes in business rules

Recommendation 2: Consider costs & benefits of allowing vehicle owners to make periodic rather than lump sum payments.

- Important if fees increase
- Consider lending of credit, staffing costs, DOL computer system

Implementation Issues/Recommendations

Recommendation 3: Indexing. If index recommend:

- Base on CPI
- Annual
- Round fees (not motor vehicle fuel tax) to nearest dollar
- Establish a base or floor
- Provide appropriate authority to agencies to index (comply with Initiative 960)

Recommendation 4: Review fees, licenses, permits & abstracts to determine:

- When rates where last adjusted
- What an inflation adjusted 2012 rate would be
- Any discretionary restrictions

State Funding Methods Recommended (2010-27)

Fuelt	Uset	Vehiclet
Motor Fuel Tax Optionst	Tolling/Congestion Pricingt	Retail Sales & Use Taxw
• Indexw	• Expand tollingw	• Change ratew
• Set increasesw	• Expand revenue usesw	Vehicle Feest
• Add special assessment feew	Ferries & Cascade Amtrakt	• Rates 2012 purchasingw
Drivert	• Operations fundingw	• Indexw
• Rates 2012 purchasingw	• Capital fundingw	• Modify weight feew
• Indexw	Off-Road Uset	• Extend in-lieu of feew
Transportation Systemt	• Rates 2012 purchasingw	Tire Feet
• Rates 2012 purchasingw	• Indexw	Business Licensest
• Indexw		

Indexw

Medium Term (5 Year Recommendations)

Action 1. Maintain viability of licensing & permit fee revenues

- Comprehensive legislation
- Change fees to 2012 purchasing power
- Index to CPI
- Provide agencies authority to revise annually
- Direct resulting Capron refunds to WSF

Revenue (\$ billions)	State Funds	Local	Vehicle Owner Mid-Size
\$3.8y	\$1.0 – Motor Vehicle Fundy \$0.5 - Multimodal Fundy \$0.2 – Nickel & TPAy \$1.3 – State Patroly \$0.7 – Ferry Operationsy \$0.1 – Ferry Capitaly	\$18 million -y Caprony	2009 - \$272y P. Power - \$437y Change - \$297y

Medium Term (5 Year Recommendations)

Action 2. Maintain short-medium term viability of fuel tax

- To maintain purchasing power : index
- To off-set declines in consumption per capita *either*
 - Increase flat rate annually (or) add special assessment fee
- Direct resulting Capron refunds to WSF

Medium Term (5 Year Recommendations)

Revenue (\$ billions)	State Funds	Local	Vehicle Owner Mid-Size
<i>Index</i> \$4.4 Risk \$6.6 Nov.	\$1.1-1.7 Motor Vehicle Fund \$1.6-2.4 Nickel & TPA \$0.1-0.1 Ferry Operations \$0.1-0.1 Ferry Capital <u>\$0.1-0.1 Other</u>	\$1.4-2.2 distribute \$ 27-41 million Capron	2009 - \$272 P. Power - \$437 Change - \$329
<i>1cpg</i> \$3.4 Risk \$3.9 Nov	\$0.9-1.0 Motor Vehicle Fund \$1.2-1.4 Nickel & TPA \$0.1-0.1 Ferry Operations \$0.1-0.1 Ferry Capital \$0.1-0.1 Other	\$1.0-1.3 distribute \$ 21-24 million Capron	Change - \$304
<i>2% assess.</i> \$4.1 Risk \$4.6 Nov	Fund allocation TBD		Change - \$295

Medium Term (5 Year Recommendations)

Action 3. Adopt in-lieu of vehicle fuel tax fees for electric & other high mileage vehicles.

- Similar to approach for natural gas & propane vehicles
- Could be applied on a graduated basis

Revenue (millions)	Vehicle Owner Mid-Size	Vehicle Owner - Electric
\$271.0– Risk \$ 1.0 - Nov	2009 - \$272 P. Power - \$437 Change - \$297	2009 - \$ 77 P. Power - \$123 Change - \$188

Medium Term (5 Year Recommendations)

Action 4. Extend Tolling Applications

- Authorized 5 studies for presentation in the 2010 session
- Consider others from WSTC study

Medium Term (5 Year Recommendations)

Action 5. Secure WSF Capital Funding

- Operations
 - 16 year short fall \$128.1 million
 - Actions on fuel tax &/or fees would close gap
- Capital
 - 16 year short fall \$ 936.3 million
 - Actions on fuel tax &/or fees close approx. \$100 million

Other Capital Funding Option	\$ millions
Capital surcharge – 10%	\$200
Direct added (if registration fees/fuel tax changed) Capron refunds to capital	\$ 50
Distribute some fees to capital	n/a
Change fuel tax distribution between operations & capital	n/a

Medium Term (5 Year Recommendations)

Action 6. Review Amtrak Cascades Service Funding

- Operations
 - Review fares/farebox recovery in light of improved service
 - Currently 54%; projected 75%
- Capital
 - Consider capital surcharge for each \$1.00 = \$30 million

Action 7. Revise WSDOT Access Management Program

- Increase & index fee
- Broaden program to:
 - Require entities that impact state highways to mitigate the impact
 - Extend to interstates with Federal Highway Administration cooperation

Longer Term Issue: Faster Fuel Tax Erosion

Medium term recommendations continue reliance on fuel tax

Key factors that could lead to faster erosion of fuel tax:

- **Fleet composition**
 - Could change faster than even risk scenario
- **Fuel prices**
 - Risk scenario uses November forecast
- **Climate change**
 - Governor & legislature adoption of aggressive VMT reduction goals
- **VMT forecast**
 - Revised forecast could show accelerating decline

Longer Term Issue: Mobility

If fuel tax erosion accelerates options:

Increase reliance on vehicle fees:

- Modify weight fees
 - Eliminate registration deduction on passenger vehicles & adjust truck weight fees
 - Revenue \$3.8 billion – multimodal fund
- Tire fee
 - Add tire fee for transportation
 - Extend to new vehicles & charge more for studded & larger tires
 - Revenue \$117 million – fund TBD

Increase transportation sales and use tax rate

- If raised to 0.5 percent from 0.3 percent - \$400 million
- Multimodal fund

Longer Term Issue: Mobility

Issue in urban congested areas

Option in addition to current variable pricing authorizations:

- Expand use of toll revenue**
 - Use for corridor specific transit
 - HOT Lanes or bridge/highway
 - Ferry fares

Other 2007 Recommended Fees

VMT Fee

- Recommend await federal action
- Recent federal study of states showed:
 - States waiting for federal action
 - Implementation of simple systems (i.e. self-reporting or odometer reading) easy to have fraud
 - Better & consistent collection requires federal leadership

Sales Tax on Motor Vehicle Fuel

- Would benefit general fund unless specifically directed to transportation
- Special assessment fee more targeted approach

Local Funding Methods

Counties

- Road levy – 43%
 - Limited by \$2.25 per \$1,000 AV & Initiative-747 1% limit
 - 96% of capacity used

Cities

- Compete with other general city funding needs
- No dedicated transportation funding source

Transit

- Sales or Other Local Taxes– 64%
- Fares – 11%

Why Some Local Options Are Not Used

Political Hurdles

- Voter approval may be required
- Revenue may not warrant expense
- Revenue may not solve the problem

Funding Method Restrictions

- Some designated for specific jurisdictions (i.e. border area fuel tax)
- May require funding particular purposes (18th amendment restrictions)
- Some may not apply to less urban areas (i.e. parking tax)
- Border areas concerns about competitive disadvantage (local sales)

May Require Inter-Jurisdictional Cooperation

- Example: local option motor vehicle & special fuel tax must distribute to cities

Mechanism May Be Fairly Recent

- Example TBDs extended to all counties & cities in 2008

State Funding Options for Local Jurisdictions

Fuel tax distributions: if index or increase rate

Increase cpg distribution of fuel tax

Distribute other state revenues – i.e. new fee, weight fees

Increase grant programs (CRAB, TIB, FMSIB, Public Transportation)

Expand use of toll revenue for transit

Local Options

Cities

- Street Utility Authority

Counties

- TBDs: allow councilmanic vote for \$100 license fee
- Fuel tax: allow a set rate increase rather than 10% of state tax
- Fuel tax: allow councilmanic option
- Rental vehicle sales tax: allow other counties same rates as King

Transit

- Extend RTID options for transit
 - 0.1% sales tax
 - \$2.00/month employer tax

Local Funding Actions

Action 1. Increase if possible state funding for grant programs

Action 2. Authorize cities to create Street Utilities

Action 3. Allow TBD to impose license fees up to \$100 by councilmanic vote

Action 4. Amend authority for counties to impose fuel tax to allow a set rate and to provide councilmanic authority.

Action 5. Transfer the increased sales tax limit and employer taxes authorized for RTID to transit.